

SPEECH

OF

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Treasurer

State of California

Greenlining Institute

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(Edited Remarks)

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Thank you very, very much to the Greenlining Institute.

And let me start off by saying how much I admire and respect what you're doing for the State. As one public leader, I want to salute you for your consistent activism, for your commitment, and for making a difference in changing the State of California for the better.

So to the Greenlining Institute, thank you very, very much for all you do.

These are extraordinary times that we live in. In so many ways, what we hear as we go around the State, is about how good things are in California. And, indeed, on a temporal basis, these are good times for our State. And as Cruz and I will tell you, we get the Department of Finance monthly reports about the booming economy. Those reports show that we're going to see record personal income growth -- in fact, 6 percent this year across our State; 3.3 percent job growth; GDP on a national basis, and in California, that continues to hum along.

In that context, we saw for the first time in many years, a balanced budget, adopted on time, with new commitments for education and infrastructure. And for the first time since 1991, we've seen our credit rating upgraded to AA, which will save the State of California taxpayers a hundred million dollars.

So the predilection, as we move into the year 2000, is to be self-congratulatory. As a matter of fact, if you saw the recent Field Poll that came out, more Californians are feeling better about the state of our economy than anytime in decades.

But the fact is that all of us have an obligation to make sure that we're not just self satisfied with the good news this year and the good news that's likely to occur next year;

but, rather, to ensure that we are focused, in these times of comfort, on the enormous challenges we're going to face in the next decade in this State.

If we want to go into the 21st century as a State that can rightfully call itself the Golden State, we have enormous challenges before us, because we stand on the cusp of a wave of growth and a wave of challenge that has rarely been seen in any society's history.

In the next 20 years this most diverse, multi-racial, multi-ethnic society -- this society of great economic and social vibrancy -- is going to see 12 million new residents. We're going to see the need for 4 million new households. We're going to see 5 million new jobs and we're going to see 2 million children entering our school system. The fact is, in this land where human movement is part of the essential fabric of our free society, this growth is coming to our State.

Our obligation, as public leaders, as civic leaders and as business leaders, is to stand ready to do all that we can to make sure that the next decades in California are ones of sustained economic success.

This wave of growth will come in the context of decades of underinvestment in the public fabric of California. I believe that this wave of growth is going to drive us head-on into two significant public policy challenges.

I want to talk briefly about the nature of those two challenges and what they pose for our society's future. The first of these challenges is to find a way to meet the tremendous demands of growth in California, and to do so in a way that preserves our environmental quality -- the very essence of what's defined California over time and has made this an economically buoyant society. And, indeed, the time is here, as never before, to recognize that the quality of our economy is inextricably tied to the quality of

our environment.

The Center for the Continuing Study of the California Economy in Palo Alto says it very succinctly: "A high quality of life," the Center says, "is increasingly a determinant in attracting entrepreneurs and workers in global industries. Failure to protect the natural attractiveness of California can, therefore, hurt the state's prosperity."

The fact is, we're on a path of environmental and economic degradation. Look around at the costs of our current development patterns.

By 1995, Californians were spending 300,000 hours per day sitting idle on congested urban highways. We have 8 of the 15 worst air quality basins in the country. In 1980, 5,000 folks were commuting from the Central Valley to the Bay Area to work. By 1999, there's 35,000 folks a day coming over the hill to work. By the year 2020, there will be 200,000.

And as we look at the costs of our current development patterns, we see an affordable housing crisis that will, in fact, constrain us economically and socially over time.

We've got 13 of the nation's 25 least affordable housing markets and 6 of the nation's 7 least affordable rental markets. We have 50 percent of our renters paying more than 30 percent of their income for rent. And here in the Bay Area, we've created 9 new jobs for every new housing unit since 1995. It's no surprise that the median home price in the Silicon Valley has rocketed up to \$400,000, and it's no surprise that 9 out of 10 Bay Area business leaders fear that the housing crisis will lead to economic decline in the 21st century.

But I believe firmly that we do not need to accept the inevitability of poor

planning, environmental degradation and high housing costs if we, collectively, at the State, regional and local levels, are willing to embrace a set of investment policies and land-use policies that support more sustainable forms of development at the suburban fringe, and that call for a renewed commitment to the economic vitality of the urban fabric of California that we have all too often left behind in 25 year cycles.

The second challenge is to grow in ways in the next decade that is true to the legacy and the promise of California -- to grow in ways that ensure that we can rightfully say in the 21st century that we are economically successful. And that does not mean that we are a state in which most are doing well, but we've left behind communities and pockets of decline and devastation. It is a state in which all have a chance to succeed economically.

Now, I started tonight and talked a little bit about how good things are. The lowest unemployment now since 1990. But you and I know -- and no one knows better than the Greenlining Institute -- that that's not true in so many parts of this State. In the most remarkable economic boom of the past few decades, it's not been true in East Palo Alto; it's not been true in Richmond; it's not true in Del Paso Heights, in my hometown of Sacramento; it's not true in Lynwood, Compton and Bell; and Cruz knows better than anyone, it's not true up and down the San Joaquin Valley, where that area has continued to suffer through double-digit unemployment throughout the decade.

And for all our wonderful successes in this State that are known across this globe, it's worth reminding ourselves that we've got the greatest gap between rich and poor of all but four states in this nation, and the number of families living below the poverty line has increased by 28 percent during this decade. And as I stand here tonight, sadly, one in five

California children are in poverty.

The fact is that our land use and growth patterns – how and where we live -- are reflective of these two Californias: one vibrant and wealthy; and the other, struggling hard. You can look all over this State -- at the inner-cities and the older suburbs, and the thriving suburbs at the perimeter – and you can see a world of difference. In my hometown of Sacramento, the poverty rate is twice what it is in booming Placer County to the north. And that great gap there grew by 50 percent during this decade. People in the Simi Valley have per-capita incomes twice what they are in Compton.

The Urban Habitat Program did a study recently here in this very wealthy Bay Area, and it looked at free- and reduced- school meal programs and who is using them, as an indicator of poverty. That 1998 study looked at 202 schools in the inner-cities and the older suburbs, and found that 80 of those schools had more than 80 percent of their kids in free- and reduced-meal programs. Only nine schools had less than ten percent in free- and reduced-meal programs. Then, the study looked at the suburban fringe and found that approximately three percent of the kids in those 29 school districts were in those programs.

My dear friend, my classmate and my fellow Sacramentan -- the two of us went off to college together in 1970 and graduated in 1974 -- Dr. Cornel West, now professor of African-American Studies at Harvard University, put it all too well in one of his more recent books, "The Future of American Progressivism."

He wrote that we now see:

"a world of advanced sectors and regions connected with one another and weakly linked to the backward sectors and regions of their own

societies."

Isn't it ironic that we are in a society today in which the most vibrant sectors of our economy, such as the Silicon Valley, have forged strong links with their counterparts across this globe, yet here in California, we have been unable and unwilling to blend the tremendous economic power of our own society to the backward sectors and regions of our own State of California.

I hope and believe that we are on the verge of a new wave of commitment to investing in California's future. I've always felt privileged that I grew up in a California with a bipartisan set of leaders -- Earl Warren, Goodwin Knight, Pat Brown -- who looked ahead and made a set of investments that did the society well for decades to come and, in many ways, laid down the foundation for private economic expansion -- a great university system; a transportation system which, for its time, was unmatched in the world; and a set of remarkable water projects.

But we sat on our lead in this State for a quarter century. My belief is that the time has come to invest again, and invest in ways that, in the 21st century, will make sure that we are economically strong because we work day and night to preserve the environment and our quality of life, and we work day and night to make this a State of broad economic opportunity.

It's in that context that I've been working in partnership with many people, like the Greenlining Institute and other progressive leaders, to begin a dialogue on how we can forge a state investment policy that is centered around the twin thrusts of quality of life and equality of economic opportunity.

I believe -- whether it is our investment in infrastructure, which in the next decade

may approach \$100 billion, or whether it is how we invest our public pension monies, or whether it is how we engage the private sector in the way in which it invests capital -- we must now make a commitment to ensure that the forces of economic power are directed, to the extent possible, around the goals of enhancing the quality of life through environmental preservation, and providing economic opportunity to those communities left behind in the State's economic surge.

Consistent with that focus, I believe that we've got to recognize that investments -- public and private -- that support livable communities, sustainable development, and sound environmental practices, in the end, strengthen our economy. That means more public dollars must be directed to supporting better growth patterns, and renewed investment in and commitment to the existing urban fabric of California; and it means that we must work hard to get private capital sources to invest in ways that best enhance quality of life.

Now, since I've used the term "sustainable development," I want to talk about it a little because it's such a nice-sounding word, that you get a lot of head-nodding often. No one is against it; everyone is for sustainability and everyone is for quality of life. But to me, it means a new set of land-use policies, bolstered by a new set of investment policies, that support new forms of growth in California. It means land uses that support transportation options beyond simply more freeways and roads. It means a better mix of housing from low- to high-priced within neighborhoods and within communities and across regions. It means locating jobs near housing and on a community and regional basis, balancing job growth with housing growth. And, yes, it does mean well planned higher density use of land, so that we can be environmentally responsible and we can



have livable communities.

A key element of any strategy to promote sustainability is the recognition that, regionally, we are bound together -- the fate of Richmond is tied to the fate of Walnut Creek. The fate of East Palo Alto is tied to the fate of the Silicon Valley. And it's time that we, at the state level, do all that we can to push regions to plan across the board, to meet those issues from affordable housing to transportation, that transcend city and county boundaries.

It's time that we use state investment policy to support more rational forms of growth. As your Treasurer, I chair an entity called the "California Tax Credit Allocation Committee," which each year awards \$450 million in federal and state tax credits for the construction and rehabilitation of affordable rental housing.

Now, my predecessor awarded that precious public resource on a lottery basis; and I knew we could do better than that. And so this year we renewed our emphasis on affordability, we renewed our emphasis on quality. But in a new point system, we also rewarded projects that were located next to transit; family projects within walking distance of public schools; projects in which the residents can walk to retail shopping, parks and community facilities. And we gave substantial points to projects which were located in existing lower-income communities, where the new housing or the rehabilitated housing was a fundamental part of a real, comprehensive effort to bring new life to those neighborhoods.

I'm proud to say that when we made our awards under the program this year, 73 percent of the projects were in those very community revitalization areas that most need the boost, and 100 percent of the projects received points for the criteria which support

smart growth.

We've made progress in trying to move investment to sustainable development on other fronts. In June of this year, I'm proud to say that the California Public Employees Retirement System, on which I sit as a board member, approved a \$200 million commitment to urban reinvestment in California, in retail and housing in underserved areas, and in mixed use development in the urban fabric of California.

So one thrust here is clearly growing in a way that's livable and environmentally sound; but the other thrust of state investment policy is as critical and in many ways more fundamental to our long-term sustenance. That other thrust is a recognition that we must have a new wave of public policy commitment and investment commitment to those communities that have struggled hardest throughout the 1990s and the balance of this century. We are on dangerous ground and we must start now to reverse a dangerous trend towards two Californias: one that is one of the wealthiest in the world and the other struggling in poverty.

Dr. Manuel Pastor, who is a professor at the University of California, Santa Cruz, put it very well:

"A strategy without equity will shipwreck your competitiveness and your dignity."

And I believe this is such an important issue, that we must work hard to bring it to the forefront; because, candidly, unlike environmental protection and quality of life, the issue of equality of economic opportunity does not have the same ballast in our political dynamic. And it's time, after a quarter of a century of pushing poverty out of the political dialogue, to recognize that our futures are bound together and the time for a new

commitment is here.

This isn't just about doing what's right. It's about doing what's smart. Because if we allow there to be a two-tiered California, it's going to threaten our whole society. Educational failure will damage the quality of our work force. Poverty will increase the fiscal pressures on state and local government. Fears for public safety are going to affect private investment decisions. And most importantly, to all of us, the very essence of the California dream -- equality of opportunity -- will be lost forever.

That is why, again, whether it is public dollars for infrastructure, publicly managed capital that's invested in our economy, or private sector capital, we've got to start moving capital in ways that can make a difference.

I am one of the three board members of the California Infrastructure and Economic Development Bank, and this year the Governor proposed and the Legislature adopted an appropriation to give that bank \$475 million in capital, to assist local governments in job-creating infrastructure projects. I am going to push very hard over the next 60 days, when we adopt our program criteria, to make sure that that money goes to places that need it most: places of high poverty, high unemployment, and in support of projects that create good, livable wages and jobs coincident with the needs of those communities. And I need your help in that fight.

So wherever we see the opportunity to make a difference, whether it's locating state office buildings, whether it's determining where park dollars go, we need to push public dollars to where they can make a difference.

Now, I've got no illusion, nor should any of us in this room, that infrastructure investment, public investment, or private capital alone is going to be enough to take the

struggling California and bring it new life. In fact, all of us need to recognize that the breadth of the public policy challenge is deep and abiding.

The depth and breadth of that challenge, in many ways, was brought home to me by a recent study that was done by the San Diego Dialogue, that looked at 16 high schools in the San Diego region. It told a simple story, and it bears repeating.

The study looked at those 16 high schools and grouped them in four quartiles; from the four schools in the richest neighborhoods, to the four schools in the poorest neighborhoods. And what they found is that the SAT scores in the richest four schools were 100 points higher than those in the poorest four schools; that 50 percent of the kids in the richest four schools are qualifying for our great university system, and only one in five kids in the poorest four schools are doing so; that the drop out rates are five times higher in the poorest four schools; and that the level of experience, background, and training of the teachers in the poorest four schools was well below what it was in the richest four schools.

And in Cruz's home -- the San Joaquin Valley -- we've only got 26 percent of our kids even taking the SAT scores. So, clearly, we need to re-gear our public policies across the board to respond to the challenges of communities in need which most need our attention so we, collectively, can survive in the 21st century.

As the Greenlining Institute knows better than anyone else, it's not just about public investment, it's also about forging links with public pension funds and the private sector to create new economic opportunities in the California left behind.

I'm privileged to serve as one of the board members of the Public Employees Retirement System and the State Teachers Retirement System and as Chair of the Pooled

Money Investment Fund, which is the state's short-term money account. When you take those three funds together, we've got \$300 billion of capital controlled by the State of California, the largest investment pool in the world.

What has struck me most squarely since I took office in January is the following juxtaposition: how it is taken as gospel and religion in the financial world that American capital should be invested in the poorest, most economically-troubled, politically-volatile nations across this world; while at the same time, however, the notion of investing in our own emerging markets is stigmatized as risky and difficult.

I know it's time for California to be a leader again. It's time we look at investing in our own emerging markets. Over the last three years, CalPERS has had annualized losses in Indonesia of 29 percent; we've had annualized losses in Malaysia of 23 percent; in the Philippines, of minus-25 percent. I know we can do better in South L.A. and in the San Joaquin Valley and up and down the State. And I know we don't need a CIA report to underwrite our own economy and our own communities.

It's interesting, as we try to set a new investment agenda, the evidence is with us. We've got to be storytellers because at the same time that many in the financial markets see risk, smart people see opportunity.

You may have seen the recent HUD study that looked at 48 inner-cities across this country. It showed that the purchasing power of those communities far exceeded the retail sales in those communities. In fact, in Watts alone, there's \$1.2 billion in purchasing power by the residents of that community, and only \$800 million of sales happen in that community, because retail services aren't there. We can invest; we can make good returns; we can bring new life to those communities.

There's also tremendous growth in the economic buying power of the ethnic and urban markets of America. The Hispanic consumer market in this country has gone from an \$80 billion a year market in 1982, to a \$280 billion market now.

And the fact is that, if the CRA has taught us nothing else, it is that there are opportunities abounding in the lower-income communities of California. When you have Alan Greenspan and Hugh McColl and every respected banker standing up to Phil Gramm, saying, "It works," you know it's a good idea.

Let me say to Phil Gramm: "Your defeat is going to be California's victory when the CRA is re-authorized this year."

We can make a difference at the state level and in the arena in which I operate as Treasurer. We're trying to take some big steps forward. I'm proud to say that in June of this year, we announced that we would become the first state ever to commit that we're going to buy, over the next year and a half, a billion dollars' worth of mortgages made in California, under the Community Reinvestment Act, to Californians making 80 percent of the median income or below, or living in neighborhoods where the median income is 80 percent or below. It's a good investment. We're going to get a 5.7 percent return versus a portfolio-wide yield of 5.2 percent and we got Freddie Mac to stand behind it. And it's new capital to lend again in California.

I'm proud to say that we've increased by a half a billion dollars since January the money we're depositing with California community banks, and that we've added 17 new small banks to our program. And I'm especially proud that, for the first time ever, we've placed money with Broadway Federal in South L.A. Yes, it's a good investment, and they're going to be making home loans and business loans where they are needed most.

We're going to keep working to place money in the banks that are committed to California's future, particularly the other California that's struggling hard.

And last week we released a new proposal. We control each year where \$1.6 billion in low-cost financing goes for rental housing, for mortgages, for industrial investment and for pollution cleanup. I'm going to fight very hard to make sure that our new proposals -- proposals that direct that money to the California with high unemployment and high poverty and direct that money to environmentally sensible projects -- get adopted, so that precious public resources can make a difference.

We've got miles to go and we have new ground to break. We've got to get more resources on the table, not just redirect what we've got. We've got to have more home ownership assistance programs. We've got to have more resources for rental housing. We've got to invest in our future, so in the 21st century we can rightfully call ourselves the "Golden State."

I believe we're on the verge of a phenomenal era in California. It's going to be an era of explosive growth and explosive challenge. The intelligence with which we handle it will define our future.

In closing, let me again return to my good friend, Dr. West, who in another one of his books, "Race Matters," talks about another era of hope and challenge. Dr. West, in that book, speaks about the 1960s, an era often debunked, but an era of fundamental change in our country. He talks about two great challenges which we faced in this country -- poverty and the racial divide.

And he notes that the 1960s were a watershed period because we decided, collectively, as a people, that we would try to surmount these two challenges; that we

would overcome the racial divide, and we would declare war on poverty. Within two years of that collective political decision, all legal barriers to African-American civil rights and voting rights were erased. And never forget that within eight years of that collective decision, one-half of America's poor people were lifted out of poverty. We made a difference then, and I believe we can make a difference now.

I look forward to working with Greenlining Institute and all the individuals and organizations that comprise it, to making the 21st Century in California one of sustained economic process, based on the fact that we worked hard to preserve our environment and, most importantly, that we showed the world that we were the society most committed to equality of economic opportunity.

Thank you for the privilege of being here tonight.